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FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 6578
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLMC/MILLENNIUM CHALLENGE CORP 0141
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

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JOHANNESBURG FSC FOR RDONOVAN
JOHANNESBURG TDA FOR DSHUSTER
USDOC FOR RTELCHIN
MCC FOR SGAULL
USAID FOR AFR/SA

E.O. 12958: N/A
TAGS: ECON EAID EINV ETRD MZ
SUBJECT: November Economic Digest: Mozambique

MAPUTO 00001626 001.2 OF 002

¶1. This is a brief summary of significant economic developments in Mozambique during November 2006. We provide it as a supplement to our other reporting. The items discussed are:

-- Macroeconomics: Inflation And Growth Figures

-- CVRD's Moatize Viability Study Under Review

-- Additional Oil and Gas Exploration Concessions Granted

-- Assembly Approves Reduction of General Customs Duties

-- New Stadium to be Built by Chinese

-- Japan Cancels Mozambique's Commercial Debt

Macroeconomics: Inflation and Growth Figures

¶2. Prime Minister Diogo predicted, in an early December newspaper interview, that inflation by the end of the would be "a single digit figure." The GRM target for 2006 was 7.5 percent, but Mozambique is not likely to reduce inflation to this low level. Inflation in 2005 was higher - initially reported at 14 percent but earlier this year the government revised this figure to 11 percent.

¶3. As for growth, on December 13 Minister of Planning Cuereneia told the National Assembly that the government expected the economy to expand at an annual rate of 7.9 percent in 2006. Fourth quarter data had not yet been gathered, but Cuereneia said that annual export earnings -- at USD 2.3 billion -- were projected to be nine percent higher than in 2005. Aluminum ingots, electricity and natural gas account for 70 percent of the country's exports. Most of the other 30 percent of export earnings comes from the export of shrimp, tobacco, cotton, sugar and cashew nuts.

CVRD's Moatize Viability Study Under Review

¶4. Brazil's Companhia Vale do Rio Doce (CVRD) delivered its viability study on the Moatize coal basin to the GRM on November 24. The GRM has sixty days to review it, clarify questions and suggest changes. Then CVRD staff will present recommendations to the company's board, which will decide whether to proceed with the project. Economic Officer and Econ/Pol Chief met with CVRD's Mozambique Director, Galib Chaim, on December 5 to discuss status of the project and potential interest by American investors in a coal-fired electricity generation plant, one facet of CVRD's planned operations in and around Moatize. Chaim said that the coal-fired plant would be approximately 1,500 megawatts in size. He added that the projected coal export total would amount to around 12 million tons annually, and that the coal would be sent via the Sena railroad line to Beira, for loading on ships there. Should the project go ahead as anticipated, coal exportation would begin in 2009/2010.

Additional Oil and Gas Exploration Concessions Granted

¶5. On November 29 the Mozambican government signed contracts with three companies -- M-10 Ltd, Sofala Offshore Ltd, and Zambeze Onshore -- for oil and gas exploration concessions. All three companies are members of the British American Natural Gas Group. Each concession contract has a six-year term and requires the companies to undertake and interpret seismic studies and conduct exploratory drilling. Should deposits of oil or gas be found, a concession lasting 25 years would then be possible. The concession blocks are in the central part of Mozambique - Sofala Offshore's lies under the bay of Sofala; Zambeze Onshore's is located in an area straddling the boundary of Zambeze and Sofala provinces; M-10's concession is further south, off the shore of Sofala and Inhambane provinces and not far from proven natural gas fields in northern Inhambane.

Assembly Approves Reduction of General Customs Duties

¶6. On November 2 the Mozambican Assembly of the Republic passed the first reading of a bill that will reduce general customs duties on imports of consumer goods from 25 to 20 percent. Within SADC, member states are already charging a maximum customs tariff of 20 percent on imports from other member states. In addition, the Assembly is considering a second bill that will reduce or eliminate tariffs on certain imported goods. The purpose of this bill is to encourage particular industries, promote sporting and musical activities and protect public health.

New Stadium to be Built by Chinese

¶7. In November the Chinese government announced it would finance the construction of a new national sports stadium for Mozambique. The stadium, which will be located in a suburb of Maputo City, will have a capacity of 42,000 spectators. All construction will be financed by China, and the stadium will be built by a yet-to-be selected Chinese construction company. Work is scheduled to begin in the second half of 2007 and should be completed by the end of 2009, in time for the 2010 soccer World Cup in neighboring South Africa. The Mozambican government hopes that some of the teams taking part will use the stadium to practice.

Japan Cancels Mozambique's Commercial Debt

¶8. In November Japan announced that it had cancelled all of Mozambique's commercial debt, an amount worth USD 60 million. This act brings Japan in line with the decision by creditor countries in 2000/2001 to forgive eligible

commercial debt of the HIPC (heavily indebted poor countries) nations.

Dudley